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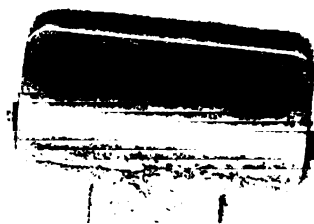
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Wood, British financial Crises and military



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# BRITISH FINANCE AND PRUSSIAN MILITARISM.

TWO INTERVIEWS.

HODDER & STOUGHTON  
LONDON NEW YORK TORONTO  
1917

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*Wood, Thomas McKinnon*

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# BRITISH FINANCE AND PRUSSIAN MILITARISM.

## I.

### BRITISH FINANCE.

(An Interview given by The Right Honourable Thomas McKinnon Wood, at that time Financial Secretary to the Treasury, to Mr. Tuohy, London Correspondent of the New York "World.")

Q.: What I wanted, Mr. McKinnon Wood, in seeking an interview, was to ask you to give me some comparative information as to British and German finance—to draw a comparison between their main features.

A.: Well, in their broad features a comparison of the finances of the two countries is possible; in some respects and in detail it is impossible. In regard to British finance, it is easy to make a statement. We do not attempt or desire to conceal our position. Just as before the war, we still publish full financial statements, from which the whole world can judge exactly how we stand as to



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revenue, loans, and expenditure. We have followed the policy of openness, which we think wise, and of which we are not afraid. Germany has adopted the policy of concealment, so far as possible, for reasons which no doubt seem wise to them, and which probably are wise. But that policy does not inspire confidence, at least outside Germany. There has been no statement of revenue or expenditure, not even an annual one, since the outbreak of war. The totals of war loans have been published—but the outstanding liability on short-term borrowings has been completely concealed.

Q.: Have you anything to say about Dr. Helfferich's budget statement last March?

A.: That exemplifies what I was saying. It was the most amazing budget every presented to any assembly. The figures are not real figures. Dr. Helfferich openly confessed that he was not giving "reliable estimates of income and expenditure." In the first place, he omitted altogether the figures of expenditure on the Army and Navy—a very notable omission. The figures he did give are of no value. As to both Income and Civil expenditure, he merely took over the estimates of the last year of peace, with more or less formal alterations, in order, as he explained, to satisfy the constitutional requirements for a budget of some kind or other. It was quite plain that his figures had no relation to present-day facts. It was a bogus budget, and the only merit about it was that there was no concealment of this fact.

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Q.: Dr. Helfferich maintained, did he not, that Germany's average war expenditure is lower than that of Great Britain? Is that correct?

A.: He did not give figures by which I can judge. But it may be so. Very likely it is so. Great Britain is far more liberal in the pay, pensions and separation allowances granted to her soldiers. We had to enlist and train the greater part of our vast army after the outbreak of hostilities. We had to transport them by sea to the seats of war. We had to multiply many times our machinery for the production of munitions. Our naval expenditure is, of course, greater, not only because our Navy is larger, but because its work is in a wider field and it keeps the seas, while for the most part that of Germany is lying in fortified harbours. Besides our own expenditure, we have readily undertaken a large share of the financial burden of the war, and are now making advances to our Allies and to a smaller extent to our Dominions, at the rate of between a million and a million and a half a day.

Q.: Dr. Helfferich spoke only of the average monthly expenditure on the war. Can you go beyond this, and compare the total cost of the war in the two countries to date?

A.: So far as Germany is concerned, I can give no estimate. There are no published amounts either of the expenditure of the Imperial Government (as I have already said) or of the special war expenditure of the various Federal States; and I



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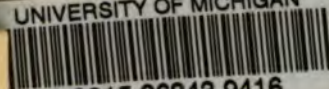
do not know the total of the large burden which the German municipalities have to bear for war purposes, such as allowances to the dependents of soldiers, which in our case are all included in the Imperial Budget. Our own expenditure can easily be ascertained from the published figures. Including all civil purposes, our total expenditure of every kind during the war period up to September 23rd, 1916, amounts to a total of £2,921,000,000. If, as we expect, our expenditure during the current financial year reaches £1,826,000,000, we shall have spent between the beginning of August, 1914, and the end of March, 1917, the sum of £3,883,000,000. I must point out that this is the gross figure, and includes large advances to our Allies and our Dominions, which will be repaid after the conclusion of the war.

Q.: I have found that the feature of British war finance of which people in Great Britain are most proud is the large sum raised in additional taxation?

A.: Yes, that is so; and I think they have every reason to be proud of the fact that a burden which is two and a half times as large as the heaviest expenditure before the war is borne by all with cheerfulness and goodwill, and that the nation is not crippled by that burden. It is one sign which cannot be mistaken of the stern determination of the whole people that no sacrifice shall be spared to bring a war, into which they were wantonly forced, when their whole thoughts were set upon questions of peaceful progress, to a conclusion

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which shall ensure security and peace for themselves and their children. In the last year of peace the British Parliament accepted the proposals of the Chancellor of the Exchequer for large new expenditure on Education, Housing, and other objects of social amelioration, so little was the thought of war in the minds of our public men. The Finance Bill was finally passed on July 31st, 1914. The revenue was estimated at the record figure of about £200,000,000. In the eight war months of 1914-15 we raised in taxation £172,000,000; in 1915-16 the sum of £337,000,000; and in 1916-17 we shall raise £502,000,000. That is to say, we shall have raised nearly one-third of the total which we shall have spent, after deducting advances to Allies and Dominions, which will be repaid.

We have thus provided for all our ordinary expenditure, and for the interest on our War Loans, and also made a large contribution out of taxation to the cost of the war. These facts speak for themselves. From them neutrals can judge of the financial strength of this country and the determination of its people. Germany can show no record like this.

Q.: The Germans deliberately adopted a different policy. Why, do you think?

A.: No doubt at first they gambled on the expectation of huge war indemnities of milliards of marks from conquered enemies. But that mirage has faded away. Anyone acquainted with the



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financial arrangements of the German Empire and with the severe political struggles which were provoked in the past by every attempt to make the revenues of the Empire more adequate to its requirements, will appreciate how tempting this gamble must have been. The inelasticity of the German financial system, and the conflicting interests of the States and the Empire, raised insuperable obstacles to revising taxation on an adequate scale during the war, and it is a commonplace with German writers on finance that the burden which will be left after the war can only be met by a complete reconstruction of the whole system, which will be a stupendous task.

Q.: But is it not the fact that your satisfaction in your revenue returns is fully equalled by the pride felt in Germany at the results of their four war loans? Do you think this justified?

A.: The Germans have no doubt made immense efforts even to the extent of mortgaging future income and raiding Belgian Bank balances, but I am less impressed by the results than the German public, and for these reasons—having taken the precaution immediately after the outbreak of war to declare bank notes inconvertible, the German Government proceeded rapidly to increase the amount of paper money in the country. It financed itself by heavy borrowing through the mediation of the Reichsbank. After this had gone on for some little time, it floated its first loan, the success of which was largely due to the paper money it had



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itself created. It then at once renewed its policy of inflation until the moment seemed good for gathering in this newly-created money through the issue of a fresh loan. This method is being repeated for the fifth time, and can be repeated indefinitely so long as confidence is not so completely broken that banks and war contractors revolt against Government pressure. The process has been helped in other ways. Stocks of raw material have been rapidly sold out, and the authorities have taken good care that the capital thus made liquid should (to a large extent) neither leave the country nor find any other employment than in financing the Government. The result is that the money market has been extremely easy, and the Government, having assumed the position not only of sole borrower, but of a borrower whose appeals few financiers or prominent business men dare to resist, has been able to float its loan on terms which by no means reflect the real state of Germany's credit.

Q.: Can you give any figures which indicate inflation?

A.: Without going into any argument as to the total amount of the inflation, which has been the subject of controversy in Continental papers, we may take the Reichsbank return as an indication, though not a complete measure of the inflation. The last comparative return which I have seen showed on 15th September, 1916, a Bank note circulation of 6,878 million marks; on the 15th Septem-

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ber, 1915, the figure was 5,571 millions ; on the 15th September, 1914, it was 4,054 millions ; on the 15th September, 1913, it was 1,837 millions. A new form of paper currency has been introduced since the outbreak of war in the form of Loan Notes, of which the total on the 15th September, 1916, amounted to 1,750 million marks. German financiers have been showing considerable uneasiness about this inflation for more than a year, as may be seen in many articles in the financial press.

Q.: It is pointed out in Germany that their war loans are subscribed in Germany itself, so that after the war the country, as a whole, will be no worse off than before. Great Britain, on the other hand, has been borrowing largely in America. What is your opinion on this matter?

A.: Of course, borrowing at home is to be preferred, provided that the precaution is taken beforehand, as has been done in Great Britain, to meet the interest and sinking fund expenses of the loan by new taxation. Germany has neglected to do so, and will find it far harder to raise new taxation in the bad times following the war. Their difficulties will not be lessened by the fact that the whole problem of taxation is complicated by the constitutional relations between the Empire and the Federal States, and that the wealthy landed classes, on the strength of antiquated political privileges, have always refused, and, to judge from the tone of their press, are as determined to refuse in the future, to bear their fair share of taxation. After





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the war, the business men who have lent their realised capital to the State will require it again for the re-establishment of their businesses, and I fancy they will be faced by considerable difficulties in trying to get it all back into liquid form.

Q.: As to your borrowing abroad?

A.: We have borrowed in the United States, but the bulk of our borrowing has been at home. What we have raised abroad is a small fraction of our borrowing, is very amply secured, and represents a comparatively small amount compared with our proved resources. Germany would have been very glad both to buy and to borrow abroad, if she had been in a position to do so. I need only point to the fate of the German loan, raised early in the war in the American market, and to her efforts in other countries, which, so far as one can judge, do not appear to have been very successful. With us, it was not a case of any difficulty in raising the money at home, but a question of exchange. We have been able to supplement our home resources by giving large orders for ourselves and our Allies to the United States, and to raise loans there was the best way of paying for these. But even in the matter of foreign borrowing, I think we shall in the end be better off than Germany. She is not borrowing abroad now for the best of all reasons—because she cannot. But what of the time after the war? What of Germany's position then? She has exhausted her stock of many essential raw materials. Her live-stock is seriously diminished.

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When peace comes she will be eager to import immense quantities of new raw material, and she will be obliged to import food. It seems to me that she will then be most anxious to raise foreign loans. She will have to face enormous difficulties as to exchange. Recently a well-known German financial writer lamented, in a quaint but expressive phrase, that his country was cut off from "the green fields of confidence where the milliard credits grow!" That was a wistful confession of the real facts. The grapes are sour. In the end Germany will be only too thankful if she can incur indebtedness to foreign countries far larger than ours.

Q.: One more question: As to foreign exchanges?

A.: That is the most important topic of all. The foreign exchanges reflect the judgment of the world on the financial position of Germany and Great Britain. "*Securus judicat orbis terrarum.*" Everywhere the German mark stands at a great discount. In Holland, Denmark, and Switzerland, the frontiers of which are still completely open to Germany, the mark is as heavily depreciated as elsewhere. Even in Turkey it stands at a heavy discount. As you know, the mark in New York stands at a discount of 26 per cent. The British sovereign, despite the derangement of ordinary commerce and the devotion of a large part of our tonnage to war purposes, still stands on your American market at a discount which represents no



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more than the cost of transporting the sovereign across the Atlantic. After over two years of war we still have maintained our gold standard, while Germany from the first resorted to an inconvertible paper currency. Our policy of home taxation has been described by a German authority as "heroic," but no one can deny that it is sound finance, and has been successful. I am quite content to leave neutral countries to make their own comparison of German and British finance. They have declared their judgment in the figures of the foreign exchanges.

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### II.

#### PRUSSIAN MILITARISM.

(An Interview given by the Right Honourable Arthur Henderson, Member of the War Council of Five, to Mr. Arthur Draper, London Correspondent of the New York "Tribune.")

"Mr. Asquith spoke of crushing Prussian Militarism; Mr. Lloyd George says, 'The only end is the most complete and effective guarantee against the possibility of that (Prussian) caste ever again disturbing the peace of Europe. What is Prussian Militarism?' I asked.

"We mean by 'Prussian Militarism' an organised effort towards world domination by an illegitimate application of immoralised military power," Mr. Henderson replied. "We do not suggest that every form of militarism or use of force is wrong; even in civil life we regard force as necessary. In corporate life it is necessary, for example, to restrain ill-disposed persons, but its legitimacy and possibility of supporting or even tolerating its use, depends on that use being firstly in the right spirit; secondly, in a right way; and thirdly, for right ends.

"Life within a single community has developed beyond the point which has been reached in regard



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to international relations. We have not, so far, got to the length in international relations of restricting the use of force to commissioned agents acting under impartial courts, to which the question of right may be referred. But in international matters, as well as in the civil life of a single community, the use of force must be subject to these three limitations, and power to exercise force must be accompanied by such conditions as will secure their observation. Otherwise we have a thing which is both morally evil and a danger to humanity.

"We know as the result of bitter experience the awful tragedies that may be enacted by a highly-organised military power moved by ambition to rule the world. We know how the smaller nations, notwithstanding existing guarantees and solemn treaties, may come under the grinding wheels of unrestrained militarism. What the Allies contend in regard to Germany is that its great military power is not subject to proper moral constraint; that is, has not been used in accordance with such constraint, and that in spite of what has gone on for nearly two and a half years, there has, so far, been no change in this respect, and no prospect of change, so far as Germany itself is concerned.

"Let me deal briefly with the contentions of the Allies regarding each of the limitations of which I have spoken. First of all, force, and power to exercise force, must be governed by a right spirit, and in regard to that the most important thing is



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the recognition that, so far as possible, other methods should be substituted for the appeal to force; that progress, alike in international matters and within a single community, consists in the substitution of moral for physical constraint, or at least of the use of force to support impartial judgments, rather than in an *ex parte* appeal to arms. A nation only holds its military power in the right spirit if it is prepared to co-operate in every sound attempt towards such a development.

"You ask whether Germany is now prepared to co-operate in such development. What evidence is there that Germany is no longer dominated by lust for power; that she is not moved now by the ideal of force rather than by moral principles or the force of great ideals? Have you forgotten that it is not long since Germany refused to sign an arbitration treaty with the United States? Is it the message of Christmas or the exigencies of its military and economic position which has wrought its change of policy? Does that change of policy represent in any sense a change of mind? If it did, we should expect to find a greater acceptance of the second moral limitation on military power, the limitation that it should be used in the right way.

"It is admitted in a degree unprecedented in the history of wars by neutral opinion that one of the combatants has conducted war with a savageness and lack of regard for humanity unprecedented for centuries. That again implies a lack of the necessary restraint on the use of military power.



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And the fact that there are no signs of improvement in this respect—the fact, for example, of the Belgian deportations—does not suggest any change in German temper.

“Finally, the Allies contend that Germany has not used its great military power for right ends; that it has prepared for and fought a war of aggression, not of defence. I am not going to repeat, however briefly, the detailed statement of the Allies’ case on this point so far as that case consists in the history of what took place during and before the first week of August, 1914. I believe the case is conclusive; if anyone has any doubt, let him read what was written in Germany about the objects of war in August, 1914, and contrast with that which is said now. It is true that we no longer hear about Germany hacking its way through to a place in the sun, but that was a predominating note at the time when war was declared. We contend, therefore, that Germany neither held nor used its great military power subject to moral restraint. There was, indeed, nothing in its outlook to supply such restraint. We all reverence soldiers for the fact that they have made, and are prepared to make, supreme sacrifices, but when the self-sacrifice is made the basis of self-assertion, then a great virtue becomes the most dangerous of vices. Ask anyone who knew Germany what was the attitude of the military officer to the civilian; recall the Zabern incident; recall the wide acceptance of the doctrines of Nietzsche, Treitschke and Clausewitz



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and the nature of those doctrines. Is that an atmosphere which is capable of securing the necessary moral restraint on military power? I feel tempted to give you another definition of 'militarism.' Somebody has defined weeds as plants not kept in the proper place. I feel tempted to define militarism, or at least its cause, as an army not kept in its proper place."

Because Mr. Henderson is the leader of British labour, I asked him whether labour wished to continue the war, or would it be satisfied with peace by negotiation. He replied:

"Labour will be satisfied by such a peace as ends the existence of a great unmoralised military power; when, and only when, that can be secured by negotiation, not only labour, but every man in every country among the Allies will welcome peace by negotiation. Such an end can only be secured, however, in one of two ways. Either German military power must be effectively controlled by a government which has an adequate regard to moral constraints, or that power must be so weakened as to cease to be dangerous.

"The first method implies a very great change in the German national outlook. We can test the sincerity of the change by the methods with which the war is carried on: and there is evidence of genuine change. It seems clear that a genuine change of mind will only be introduced when a counterpoise has been supplied to the steady dissemination of militarist ideas which has been going



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on in Germany in the past, and which has bitten deep into national thought. It is necessary not merely that those who have felt the suffering of war should feel the horror, but that the succeeding generations should do so also. The most effective method to secure this, and the only method to which history points for that purpose, is that it should be manifest that war has not paid. The surest guarantee of a change in German temper is such conditions of peace as, on the one hand, are not vindictive, but, on the other, make it so clear that Germany has suffered defeat as to render it impossible, even for a German historian, to maintain that his country owed a debt to its military caste at the beginning of the 20th century.

"Changes of national temper do not in general come suddenly; they certainly do not come without observation. Unless, or until an overwhelming change comes in the German temper, we have not merely to do what is necessary to force a realisation of the error of past policy, but to secure that, in so far as it continues, it will have ceased to be dangerous. Suppose we had a peace on the basis of *status quo ante bellum*? You forget that while Germany has failed to conquer her enemies, she has conquered her allies; Germany has subordinated Austria, Turkey and Bulgaria wholly to her will, and middle Europe has become a political reality. It is impossible to return to the *status quo* as between Germany and her allies, and that reason alone would make it impossible to accept the *status*

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*quo ante bellum*, as between Germany and her enemies.

"We cannot tolerate so strong, and so strongly placed a military force as would be constituted by Germany, Austria, Turkey and Bulgaria, effectively united under German control, nor can we do so, even in view of international aspirations after peace for the future. In the first place, such aspirations might not be fulfilled; this or that great power may decline to enter, or decide to leave such a league. In the second place, if you leave a great military power in the hands of those who have too little regard for moral constraint, a league of peace will succeed, at the best, at the risk of another war. That may be a tolerable thought for those who have not suffered as Allies have suffered; it is unthinkable for us to allow such a possibility.

"Finally, there is no field of life where it is a sound procedure to seek to secure moral progress by failing to punish crime where there is no change of mind. That moral experience is not reversed because you are dealing with crimes of the magnitude of those of Germany and her allies, or because you are dealing with governments and not with private persons. Wickedness remains wickedness even in high places."

Constantinople and Turkey are the subjects of greatest importance in any consideration of the possibilities of peace, so I asked Mr. Henderson how labour viewed the Turk?



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"I have spoken of the necessity of breaking up middle Europe in order that a dangerously great power may not remain under German control. That is true, but I think labour would be disposed to approach the question of the Turk rather from the point of view which I last mentioned. Though Armenian atrocities are not much talked about here, they have undoubtedly made a deep impression on the minds of the working population who, I think, are determined that never again shall a Christian nation be under the yoke of the Turk. When you have said they were as complete and as terrible as it was possible for unscrupulous brutality to secure, you have said all there is to be said. They are not much talked about in this country, but this country would never tolerate either possibility of their repetition, or their escape from signal punishment.

"You ask what will be Labour's position after the war, and you talk as though labour were in a less favourable position during the war than before. It is true that labour has sacrificed certain privileges, but the question of the restoration of privileges, where in somewhat changed conditions these are still desired, or of the securing of equal or greater privileges in other directions, is not a matter of existence of this or that privilege at present in utterly abnormal circumstances, but of the temper in which these problems will be faced after the war, and of the political power which labour will then possess to secure attention for its views.

"I am not going to discuss at the very end of



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this interview so big a question as economic reconstruction at the end of the war, but so far as improved conditions for labour are concerned, I would point out that there have been few domestic results of the war which are more striking than the growth of a desire among other classes to recognise the claims of labour, and than its increased political power, as evidenced, for example, by its share in both past and present coalition ministries. Though the war may have led labour to give up for a time certain privileges, it has not weakened, but strengthened, its general position. Labour has given freely its sons to fight in a great and just cause. It has generously agreed to temporary suspension of hard-won trade-union rights; in short, during the whole period of its greatest war, the State has been patriotically served by its workers, and I confidently believe that when peace has been won, workers will be more adequately and justly assisted by the State."

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